

Memorandum

To: Honorable Jerome E. Horton, Chairman
Honorable Michelle Steel, Vice Chair
Honorable Betty T. Yee, First District
Senator George Runner (Ret.), Second District
Honorable John Chiang, State Controller

Date: February 13, 2012

From: Robert Ingenito, Chief
Research and Statistics Section

Subject: **FUEL TAX SWAP**
FEBRUARY 29, 2012 – BOARD MEETING

Motor Vehicle Fuel. Current law (Revenue and Taxation Code sections 6357.7 and 7360, commonly referred to as the “fuel tax swap”) requires the Board of Equalization (Board) to determine the excise tax rate for motor vehicle fuel (MVF) on an annual basis. Specifically, the fuel tax swap eliminates the General Fund portion of the sales and use tax on MVF and raises the excise tax rate with the intent of raising the identical amount of revenue. Legislation set the excise rate on MVF at \$0.353 cents per gallon in 2010-11, and requires the Board to adopt a “revenue-neutral” excise tax rate for each ensuing fiscal year by the first of March.

Staff has developed forecasts for both the price and consumption of MVF. These forecasts project that the General Fund portion of sales and use tax revenues would have been \$2.705 billion. Staff calculates that an excise tax of \$0.360 per gallon would generate the same amount of revenue.

Thus, staff recommends that the Board set the excise tax rate on MVF for the period July 1, 2012 through June 30, 2013 at \$0.360 per gallon, an increase of \$0.003 from the current rate of \$0.357.

Diesel Fuel. Current law (Revenue and Taxation Code 6051.8, 6201.8 and 60050, commonly referred to as the “fuel tax swap”) increases the sales and use tax on diesel fuel by 2.17 percentage points in 2012-13, and requires the Board to adjust the excise tax on diesel such that the total amount of revenue raised (by estimation) is unchanged.

Staff has developed forecasts for both the price and consumption of diesel fuel which project that the revenue gain would be \$215.7 million. Staff calculates that an excise tax of \$0.10 per gallon would lead to an equivalent revenue loss.

Thus, staff recommends that the Board set the excise tax rate on diesel fuel for the period July 1, 2012 through June 30, 2013 at \$0.10 per gallon, a decrease of \$0.03 from the current rate of \$0.13 per gallon.

RI:vs;jm

cc: Mr. David Gau
Mr. Jeff McGuire
Ms. Margaret Shedd
Ms. Diane Olson

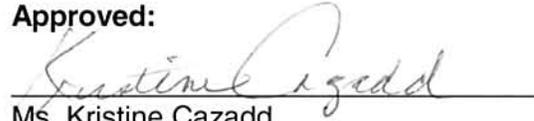
Mr. Lou Feletto
Ms. Susanne Buehler
Mr. Bill Benson, Jr.

Recommendation by:



Robert Ingenito, Chief
Research and Statistics Section

Approved:



Ms. Kristine Cazadd
Executive Director

Approved:

Diane Olson, Chief
Board Proceedings Division

BOARD APPROVED

at the _____ Board Meeting